

Message Text

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ACTION EUR-12

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FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 6049

SECDEF WASHDC IMMEDIATE

INFO AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY OSLO

OSAF/I&F WASHDC

ASD/YP WRIGHT PATTERSON AFB OHIO

C O N F I D E N T I A L BRUSSELS 1393

E.O. 11652: GDS

TAGS: MASS, BE, US

SUBJECT: REASONS BEHIND VANDEN BOEYNANTS TO RUMSFELD LETTER

REF: BRUSSELS 1326

SUMMARY: BELGIAN GOVERNMENT HAS IDENTIFIED PROBLEMS DURING CURRENT F-16 COMPANY TO COMPANY NEGOTIATIONS WHICH IT BELIEVES CAN ONLY BE RESOLVED AT THE MINISTERIAL LEVEL. VANDEN BOEYNANTS WILL WANT TO DISCUSS THESE PROBLEMS WITH SECDEF RUMSFELD IN WASHINGTON. OUR SOUNDINGS OF BELGIAN GOVERNMENT HAVE IDENTIFIED KEY PROBLEM AREAS WHICH ARE PRESENTED BELOW. END SUMMARY.

1. WE HAVE HEARD ALMOST IDENTICAL PRESENTATIONS FROM MINISTRY OF DEFENSE AND MINISTRY OF ECONOMIC AFFAIRS (COL. LEFEBVRE AND MESSRS COUSSENS AND BOLAND) INDICATING THAT BELGIAN GOVERNMENT IS COORDINATED ON ISSUES. MINISTRY OF FOREIGN AFFAIRS
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DOES NOT APPEAR TO BE INVOLVED AT THIS STAGE.

2. POINTS RAISED BY BELGIANS WITH US INCLUDE:

(A) THERE IS A SERIOUS "DISTORTION" BETWEEN WHAT GOVERNMENTS AGREED TO AT TIME MOU WAS SIGNED (SPECIFICALLY F-16 PARTICIPATION PLAN) AND PRESENT POSITIONS BEING TAKEN BY COMPANY NEGOTIATORS. NATURE OF THESE PROBLEMS IS SUCH THAT F-16 SPO AND ESPO CANNOT RESOLVE THEM. PROBLEMS ARE RESULT OF DIFFERENT ECONOMIC AND INDUSTRIAL CONDITIONS IN THE US AND EUROPE. WHILE MOST ACUTE PROBLEMS ARE IN THE ELECTRONICS SECTOR, THEY ALSO CARRY OVER TO AIRFRAME AND ENGINE SECTORS.

(B) "DISCONTINUITY" OF CONTRACTS. CONTRACTING IS BEING DONE IN TRanches OF THREE YEAR PERIODS. INITIAL CONTRACT CALLING FOR PRODUCTION OF 442 AIR-CRAFT HAS OBVIOUS ADVANTAGES TO USG IN PERMITTING REVIEW OF CONTRACT IMPLEMENTATION AND NECESSARY ADJUSTMENTS. ON THE OTHER HAND, THIS SORT OF CONTRACTING BY TRanches ("DISCONTINUITY") POSES IMPOSSIBLE PROBLEMS FOR BELGIAN INDUSTRY DUE TO HIGHER UNIT COSTS. BELGIAN COSTS ALREADY HIGH AND SPLITTING OF ORDER IN SMALL QUANTITIES WILL REINFORCE BELGIAN COST DIFFICULTIES. BELGIANS NOTE THAT US COMPANIES ALREADY BENEFIT FROM BOTH USG-OWNED FACILITIES AND TOOLS AND THAT WHERE NEW INVESTMENT IS REQUIRED TO PRODUCE THE F-16, IT WILL BE POSSIBLE TO USE THE NEW TOOLS AND FACILITIES IN OTHER PROGRAMS. BELGIAN INDUSTRY WILL NEED NEW CAPITAL BOTH FROM THE BELGIAN GOVERNMENT (WHICH WILL PROVIDE SOME) AND FROM PRIVATE BANKING SOURCES. IT WOULD BE IMPOSSIBLE TO OBTAIN PRIVATE INVESTMENT FOR A PROGRAM THAT IS DONE TRANCHE BY TRANCHE WHERE THERE IS NO GUARANTEE FOR THE FULL LIFE OF THE PROGRAM. NOR WOULD BELGIAN INDUSTRY BE ABLE TO AMORTIZE NEW INVESTMENT IF ITS CONTRACTS ARE SUBJECT TO A TRANCHE BY TRANCHE RENEWAL. FURTHERMORE, THE US PRIME CONTRACTORS ARE PROPOSING "TERMS AND CONDITIONS" THAT WOULD PERMIT THEM TO BREAK CONTRACTS AFTER EACH TRANCHE AND BEFORE PLACING ORDERS ANNUALLY ON THE BASIS OF A REEXAMINATION OF BELGIAN COMPETITIVENESS. BELGIANS WANT (1) CONTRACTS COVERING FULL PROGRAM, AND (2) NO CLAUSE PERMITTING US PRIME CONTRACTOR TO BREAK CONTRACTS. IF THESE REQUESTS ARE NOT MET, BELGIANS SAY EUROPEAN INDUSTRY CANNOT COMPETE WITH US INDUSTRY.

(C) INFLATION. BELGIANS NOTE THAT STEERING COMMITTEE SUB COMMITTEE OF FINANCE HAS A TEN YEAR PROJECTION OF INFLATION BASED ON US STUDY. BELGIAN AND US COMPUTATION OF INFLATION RATES

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ARE BASED ON DIFFERENT ASSUMPTIONS, RESULTING IN RATE OF INFLATION HIGHER THAN US. BELGIANS WANT TO INTRODUCE A "MORE SUPPLE" FORMULA TO HANDLE INFLATION PROBLEM.

(D) ELECTRONICS SECTOR QUOTAS. PARTICIPATION PLAN ALLOCATED \$147 MILLION TO BELGIUM, WHICH HAS NOW BEEN REDUCED TO \$60 MILLION DUE TO CHOICE OF WESTINGHOUSE RADAR. THIS REDUCTION OF COMPENSATION TO BELGIAN ELECTRONICS INDUSTRIES IS A SERIOUS BLOW.

(E) DIFFERENCES BETWEEN EUROPEAN CONSORTIUM COUNTRY'S GOALS. SOME COUNTRIES WOULD ACTUALLY PREFER TO BUY THE F-16 DIRECTLY FROM THE US AND GET IT AT THE CHEAPESE POSSIBLE PRICE. THAT IS NOT BELGIUM'S VIEW. WITHOUT PARTICIPATION IN THE PRODUCTION OF THE F-16, BELGIUM WOULD NOT ACQUIRE THE AIRCRAFT.

(F) AS BELGIAN SELECTION OF THE F-16 LED TO A GOVERNMENT CRISIS IN 1975, SO MIGHT THE PRESENT PROBLEMS. MINISTER OF DEFENSE WILL BE QUESTIONED IN PARLIAMENT ON FEB 12 OVER STATUS OF F-16 PROGRAM IN LIGHT OF NUMEROUS RECENT LOCAL PRESS ARTICLES IMPLYING THAT BELGIUM WAS DUPED. WHAT HURTS IS THAT THIS INTERPELLATION WILL COME FROM A MEMBER OF THE GOVERNMENT COALITION (RW CHAMBER OF DEPUTIES FLOOR LEADER, TALBOT).

(G) VANDEN BOEYNANTS' CHEF DE CABINET TOLD US THAT VDB WAS PLANNING TO REQUEST AN APPOINTMENT WITH SECDEF IN WASHINGTON IN ORDER TO TRY TO RESOLVE THESE QUESTIONS. NO TIME FRAME HAS YET BEEN DECIDED FOR REQUEST. HE IS AWARE OF ASST SEC SHRONTZ'S VISIT TO BRUSSELS WEEK OF FEB 16 AND MAY WISH TO SEE HIM ALSO.

3. COMMENT: WE JUDGE THAT THESE ISSUES ARE REAL AND DEEPLY FELT ON THE PART OF THE BELGIAN GOVERNMENT AND NOT A PERSONAL INITIATIVE ON VDF'S PART FOR HIS OWN REASONS.RENNER

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